Honolulu Star-Advertiser

Future benefit or future liability?

Two sides of the debate on Oahu’s rail offer starkly different views of the future

POSTED: 01:30 a.m. HST, Oct 24, 2012

COURTESY HONOLULU RAIL TRANSIT

KODOMO NO TAME NI (FOR THE SAKE OF THE CHILDREN)
By Carrie Okinaga and Damien Kim

We are the members of the board of directors of the Honolulu Authority for Rapid Transportation, the oversight agency that you, the public, created. Charged by you to oversee the city's rail project, we have conducted more than 68 public meetings in the past 14 months. With the assistance of state and city government officials, some of whom serve on our board, your start-up agency is fully-operational and set to receive a $1.55 billion federal grant.

We are led by a highly experienced and outstanding CEO, Dan Grabauskas, who is fully committed to this project and to maximizing all of its potential benefits. We believe in this project because of its potential to improve the quality of life for coming generations, *kodomo no tame ni* (for the sake of the children).

Carrie Okinaga, top, is chairwoman of the Honolulu Authority for Rapid Transportation's board of directors and Damien Kim is chairman of HART's project oversight committee.

How did we get here? Our policymakers long ago set us on a course to keep country country, directing growth to the west side in order to house and sustain our growing population, while preserving parts of our island's natural beauty. Yet, despite decades of talk and study, and more talk and more study, we have not provided the basic transportation infrastructure to support our neighbors who are most negatively impacted by these planning policies. It should be no surprise that our traffic is now the worst in the nation. After two affirmative public votes leading us to where we are today, you have never been closer to making Honolulu's mass transportation system a reality for our children, and for our future.

Where exactly are we today? You, Honolulu, have been formally notified by the United States government that you are ready to receive a $1.55 billion grant. This money can be used only for Honolulu's rail project, and your project has competed fiercely with other cities' projects and has emerged a winner, with the support of U.S. Sen. Daniel Inouye and the Obama administration.

After multiple examinations, your financial plan has recently been dissected and examined for the final time and, as the Star-Advertiser noted, you have been informed by the Federal Transit Administration's independent consultant, Porter & Associates Inc., and the FTA, that there is nothing more you need to do to get that federal commitment. You have a solid financial plan that will yield a cost-efficient transportation system by 2019, with construction costs paid in full and no remaining debt after the expiration of the general excise tax surcharge in 2022. Your project enjoys the support of Congress and the administration, and your finances have been hailed as the model other jurisdictions should follow in terms of use of tourist dollars and not passing on debt to future generations.

You have already invested more than seven years and $500 million in the planning, development and initial construction of this project. You have successfully competed with many other cities and states with the products of that investment. And if Honolulu falters in its commitment going forward, you can be certain that the $1.55 billion will be awarded to those other jurisdictions for their transit systems.

The temporary cessation of construction activity due to the state Supreme Court's decision has resulted in scheduling delay and added costs to the project. The delay is temporary, the costs are covered by your contingency fund, and the other work of the project continues (archaeological inventory surveying, designing of stations and trains, etc.).

Where are we headed? Toward delivering a more efficient, cost-effective environmentally-friendly transportation system that will be cheaper to operate than a bus-only, fuel-dependent system. No question, your project has encountered challenges along the way, and there will be more. With the assistance and leadership of the mayor, the City Council, the state Legislature, the governor and our federal partners, we have worked to improve and advance this project, on your behalf. We remain committed to fulfilling our sworn duty to upholding the laws passed by you, the public, and delivering this project in a fiscally prudent manner; *kodomo no tame ni.*

Co-signatories are HART finance chairman Don Horner; William "Buzz" Hong, chairman of HART's transit-oriented development committee; Keslie Hui and Bobby Bunda, chairman and vice chairman of HART's human resources committee; Wayne Yoshioka, city transportation director; and Jiro Sumada, acting director of the city Department of Planning and Permitting.

FITCH REPORT RAISES RED FLAG ON RAIL'S AFFORDABILITY
By Stan Shiraki, Malcolm Tom and Geminiano "Toy" Arre Jr.

Stan Shiraki, left, was chief budget officer during Mayor Eileen Anderson's administration and deputy director of budget and finance during the Cayetano and Lingle administrations; Malcolm Tom, center, was deputy managing director and chief budget officer during Mayor Jeremy Harris' administration; and Geminiano "Toy" Arre Jr., right, was director of finance under Mayor Frank Fasi's administration.

A new report on the city's finances, issued on Oct. 17 by the respected global bond rating agency, Fitch Ratings, reaffirmed the city's credit rating but also delivered a stern warning that the city may not be able to afford its current obligations, much less additional ones from rail, without raising taxes.

According to Fitch: "Overall carrying costs will likely rise over the next several years due to these higher debt service and pension requirements, and could limit the city's ability to meet other spending demands if revenues do not keep pace."

In effect, Fitch is advising the city that it would need to raise taxes to take on the obligations of the $5.27 billion rail program, i.e. "other spending demands."

Other municipalities that did not heed the advice of their financial counselors have ended up in bankruptcy, such as Harrisburg, Pa. in 2011 and Jefferson County, Ala. in 2010.

These municipalities declared bankruptcy after large public works projects experienced delays and significant cost overruns. Harrisburg filed for bankruptcy after incurring debts in excess of $400 million associated with a failed trash incinerator project. Jefferson County filed for bankruptcy after the cost of upgrading its sewer system jumped from $1.2 billion to $3.2 billion.

So what does this have to do with Honolulu?

A previous Federal Transit Administration study, the Porter Report, found that the city's subsidy of rail's operating and maintenance costs will jump 75 percent from 11 percent to 19 percent of the city's general and highway funds — a total increase of $201 million by fiscal year 2021.

To pay for an increased transit subsidy, Porter recommends that the growth in city's operating costs be decreased by 0.9 percent annually.

However, Fitch points out that the substantial hikes in debt service, retirement contributions and post-employment benefits make the goal of lower operating cost growth unreachable.

In order to fund transit's growing subsidy, the city would have no choice but to either reduce costs by cutting public services or to raise taxes. Since no one wants to see less police or fire safety or cutbacks to parks and roads maintenance, raising taxes is the only real option to pay for the increased transit subsidy.

Let's add an additional factor to the equation.

Several state and FTA studies have concluded that rail will cost 40 percent more than estimated and the final rail bill is likely to be in excess of $7 billion. A 40 percent cost overrun would mean the city would need to cover an additional $2 billion shortfall.

Between paying a 75 percent increase in the rail subsidy and a 40 percent project cost overrun, city residents could see their taxes rise by almost 20 percent, resulting in an additional tax burden of $1,023 annually per household.

The lessons from the Fitch and Porter reports and the bankruptcies of Harrisburg and Jefferson County clearly illustrate that large capital projects with runaway unfunded liabilities could be disastrous.

Between Furlough Fridays and declining tax assessments, we've gone through some pretty bleak times lately. Rail's drain on city finances could be far worst. At the very least, rail will increase the tax burden on our families or, at worst, place the city on the path of Harrisburg and Jefferson County.

Our city leaders should listen to the advice of its financial experts and realize that rail is unaffordable to Honolulu.